Notes to the Accounts

for the year ended 31 December 2006

Gains or losses, together with transaction costs, on investments held at fair value through profit or loss are recognised in the income statement. Gains or losses, together with transaction costs, on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Carried interests are recognised in the income statement on an accruals basis in accordance with the substance of the relevant contractual agreement. Where there is a contractual agreement to receive such amounts subject to the fulfilment of specified conditions, capital gains receivable are recognised in the income statement on an accruals basis in accordance with the substance of the relevant contractual agreement. Where there is no such agreement, capital gains receivable are recognised when the right to receive the payment is established.

(u) Cost of sales
Commissions and distribution fees payable to third parties are recognised over the period for which the service is provided.

Asset management fees paid in advance in respect of structured product funds and the reimbursement of any marketing and distribution fees paid to the distributor as agent of the fund are deferred and spread over the life of the fund. Fees paid to the distributor but not yet charged that relate to deferred fees received are released to the income statement on redemption.

(v) Leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases.

As lessor, income from finance leases is recognised as income in the income statement over the lease term under the pre-tax net investment method.

Income from operating leases is recognised on a straight-line basis over the period of the lease. Incentives given to enter into leases are amortised over the period of the lease.

As lessee, costs under operating leases are charged to the income statement in equal amounts over the periods of the leases. Incentives received to enter into leases are amortised over the period of the lease.

(w) Pensions and other post-employment benefits
The Group operates a number of pension schemes around the world. For defined contribution schemes, pension contributions payable in respect of the accounting period are charged to the income statement. For funded defined benefit schemes, the cost of providing benefits is determined separately for each plan using the projected unit credit actuarial valuation method. The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unvested past service cost, is recognised as a liability in the balance sheet. An asset arising, for example, as a result of past over-funding or the performance of the plan investments is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

All actuarial gains and losses are recognised in full in the statement of recognised income and expense.

(x) Share-based payments
The Group makes equity-settled share-based payments to key employees through awards over ordinary and non-voting ordinary shares and by the grant of market value share options over non-voting ordinary shares.

Awards over ordinary and non-voting ordinary shares made under the Group's Equity Compensation Plan are charged at fair value in the income statement. The fair value of an award is calculated using the market value of the shares on the date of grant, discounted for the dividends foregone over the average holding period of the award. The fair value charges, adjusted to reflect actual and expected levels of vesting, are spread over the performance period and the vesting period of the awards. Awards that lapse are credited to the income statement in the year in which they lapse.

Options granted over non-voting ordinary shares under the Group's Share Option Plan are measured at fair value at the date of grant. The fair value determined is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of a stochastic option valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(y) Deferred cash awards
The Group makes deferred cash awards to key employees under the Equity Compensation Plan in the form of a notional investment in funds operated by the Group. Such awards do not constitute share-based payments, but are accounted for in accordance with IAS 19. The Group hedges such awards by investing in the underlying funds. These awards are measured at cost and are charged to the income statement in the performance year. Awards that lapse are credited to the income statement in the year in which they lapse.

(z) Foreign currency translation
The results of subsidiary undertakings, branches and associates drawn up in currencies other than sterling are translated at average rates of exchange ruling during the year. The assets and liabilities of these entities are translated at the rate of exchange ruling at the balance sheet date.

Exchange differences arising on the translation of the results of these entities from the average rate used in the income statement to the closing rate used in the balance sheet are taken through equity. In addition, exchange differences arising on the translation of the equity of these undertakings at the beginning of the year are also taken directly to equity.

Foreign currency assets and liabilities are translated at the rates of exchange ruling at the balance sheet date and any exchange differences arising are taken to the income statement within revenue. Exchange differences are taken through equity where they arise on the translation of assets and liabilities whose changes in value are taken directly through equity.

(aa) Dividends payable
Dividends payable are recognised when the dividend is paid or approved by shareholders.

2. Segmental reporting

(i) Primary reporting format – business segments

The Group has four continuing classes of business: Asset Management, Private Banking, Private Equity and Group (formerly referred to as 'Group Net Income/(Costs)'). Asset Management principally comprises investment management including advisory services, property and alternative assets; Private Banking principally comprises investment management and banking services provided to high net worth individuals and certain smaller institutions; Private Equity principally comprises the Group's investments in private equity, venture and buyout funds and related vehicles; Group consists of income on the Group's liquid and seed capital less Group costs and provisions, and the results of the leasing business.

The allocation of costs to individual business segments is undertaken in order to provide management information on the cost of providing services and to provide managers with a tool to manage and control expenditure. Costs are allocated on a basis that aligns the charge with the resources employed by the Group in a particular area of its business. Typical dynamic allocation bases are square footage occupied and number of staff employed by particular business segments.

Non-current assets held for sale are included within the Group segment.

Year ended 31 December 2006	Asset Management[1] £mn	Private Banking £mn	Private Equity £mn	Group £mn	Inter-segment elimination £mn	Total £mn
External revenue	811.1	80.1	22.2	31.0	–	944.4
External net interest	–	22.8	–	–	–	22.8
Inter-segment interest payable	–	(4.4)	–	–	4.4	–
Total revenue	811.1	98.5	22.2	31.0	4.4	967.2
Cost of sales	(166.2)	(2.8)	–	–	–	(169.0)
Gross profit	644.9	95.7	22.2	31.0	4.4	798.2
Administrative expenses	(436.6)	(68.8)	(3.2)	(33.7)	–	(542.3)
Operating profit	208.3	26.9	19.0	(2.7)	4.4	255.9
Share of profit of associates	–	–	15.6	–	–	15.6
Share of loss of joint ventures	(0.2)	–	–	–	–	(0.2)
	(0.2)	–	15.6	–	–	15.4
External interest receivable and similar income	6.3	–	–	13.8	–	20.1
Inter-segment interest receivable	5.2	–	–	(0.8)	(4.4)	–
Interest receivable and similar income	11.5	–	–	13.0	(4.4)	20.1
Interest payable and similar charges	(0.6)	–	–	(0.8)	–	(1.4)
Profit before tax	219.0	26.9	34.6	9.5	–	290.0
Administrative expenses include the following non-cash expenses:						
Share-based payments	(23.3)	(1.5)	–	(2.7)	–	(27.5)
Depreciation and amortisation of software	(5.0)	(2.5)	–	–	–	(7.5)
Provisions	0.1	–	–	(5.9)	–	(5.8)
	(28.2)	(4.0)	–	(8.6)	–	(40.8)
Segment assets	2,427.3[2]	1,942.8	170.3[3]	856.1	(285.6)	5,110.9
Segment liabilities	(2,013.3)	(1,749.5)	(2.2)	(187.9)	285.6	(3,667.3)
	414.0	193.3	168.1	668.2	–	1,443.6
Capital expenditure on segment assets	10.8	1.2	–	–	–	12.0

[1] Includes the Group's life company business – see note 14 for further details.
[2] Includes £3.6 million investment in joint ventures, £0.1 million investment in associates.
[3] Includes £21.6 million investment in associates.

Notes to the Accounts

for the year ended 31 December 2006

2. Segmental reporting (continued)

Impairment losses have been recognised in the year as follows:

	2006				
	Asset Management £mn	**Private Banking £mn**	**Private Equity £mn**	**Group £mn**	**Total £mn**
Impairment losses recognised:					
In profit or loss	–	(0.2)	(1.4)	–	(1.6)

Inter-segment amounts represent interest payable and receivable on cash balances held by Private Banking on behalf of Group companies.

Year ended 31 December 2005	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group £mn	Inter-segment elimination £mn	Total £mn
External revenue	667.8	58.5	28.7	31.0	–	786.0
External net interest	–	22.0	–	–	–	22.0
Inter-segment interest payable	–	(6.4)	–	–	6.4	–
Total revenue	667.8	74.1	28.7	31.0	6.4	808.0
Cost of sales	(128.8)	(2.0)	–	(0.2)	–	(131.0)
Gross profit	539.0	72.1	28.7	30.8	6.4	677.0
Gain on discontinued outsourcing contract	20.1	0.3	–	–	–	20.4
Administrative expenses	(374.0)	(66.1)	(3.0)	(41.2)	–	(484.3)
Operating profit	185.1	6.3	25.7	(10.4)	6.4	213.1
Share of profit of associates	–	–	13.7	–	–	13.7
Share of loss of joint ventures	(0.2)	–	–	–	–	(0.2)
	(0.2)	–	13.7	–	–	13.5
External interest receivable and similar income	4.9	–	0.9	19.5	–	25.3
Inter-segment interest receivable	4.3	–	–	2.1	(6.4)	–
Interest receivable and similar income	9.2	–	0.9	21.6	(6.4)	25.3
Interest payable and similar charges	(0.2)	–	–	(1.0)	–	(1.2)
Profit before tax	193.9	6.3	40.3	10.2	–	250.7
Administrative expenses include the following non-cash expenses:						
Share-based payments	(18.4)	(2.1)	–	(2.8)	–	(23.3)
Depreciation and amortisation of software	(6.7)	(4.2)	–	–	–	(10.9)
Provisions	(0.2)	–	–	(9.2)	–	(9.4)
	(25.3)	(6.3)	–	(12.0)	–	(43.6)
Segment assets	647.8[1]	1,971.1	161.5[2]	777.5	(216.5)	3,341.4
Segment liabilities	(369.2)	(1,800.0)	(0.4)	(45.2)	216.5	(1,998.3)
	278.6	171.1	161.1	732.3	–	1,343.1
Capital expenditure on segment assets	6.8	0.7	–	–	–	7.5

[1] Includes £4.1 million investment in joint ventures.
[2] Includes £31.6 million investment in associates.

2. Segmental reporting (continued)

Impairment losses have been recognised in the year as follows:

	2005				
	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group £mn	Total £mn
Impairment losses recognised:					
In profit or loss	(0.3)	–	(1.6)	–	(1.9)
Directly in equity	–	–	(1.3)	–	(1.3)

Inter-segment amounts represent interest payable and receivable on cash balances held by Private Banking on behalf of Group companies.

(ii) Secondary segment information – geographical segments
The geographic analysis is based on the geographical location of the Group's clients.

The allocation of costs to individual geographic areas is undertaken in order to provide management information on the cost of providing services and to provide managers with a tool to manage and control expenditure. Costs are allocated on a basis that aligns the charge with the resources employed by the Group in a particular location. Typical dynamic allocation bases are square footage occupied and number of staff employed by different geographic areas.

Non-current assets held for sale are included within the Americas segment (£50.1 million) and the United Kingdom segment (£10.0 million). Comparative amounts are held wholly within the Americas segment.

	United Kingdom		Continental Europe		Americas		Asia Pacific		Inter-segment elimination		Total	
	2006 £mn	2005 £mn	2006 £mn	2005 £mn	2006 £mn	2005 £mn	2006 £mn	2005 £mn	2006 £mn	2005 £mn	2006 £mn	2005 £mn
External revenue	316.8	247.3	354.1	285.4	74.9	73.6	198.6	179.7	–	–	944.4	786.0
External net interest income[1]	31.8	23.5	(8.9)	(1.3)	(0.1)	(0.2)	–	–	–	–	22.8	22.0
Inter-segment interest receivable/(payable)	(22.9)	(15.7)	18.3	9.1	0.2	0.2	–	–	4.4	6.4	–	–
Revenue	325.7	255.1	363.5	293.2	75.0	73.6	198.6	179.7	4.4	6.4	967.2	808.0
Cost of sales	(34.3)	(24.5)	(92.4)	(65.9)	(0.2)	(0.4)	(42.1)	(40.2)	–	–	(169.0)	(131.0)
Gross profit	291.4	230.6	271.1	227.3	74.8	73.2	156.5	139.5	4.4	6.4	798.2	677.0
Gain on discontinued outsourcing contract	–	13.0	–	3.4	–	4.0	–	–	–	–	–	20.4
Administrative expenses	(230.8)	(216.9)	(152.9)	(129.6)	(58.7)	(53.0)	(99.9)	(84.8)	–	–	(542.3)	(484.3)
Operating profit	60.6	26.7	118.2	101.1	16.1	24.2	56.6	54.7	4.4	6.4	255.9	213.1
Share of profit of associates	–	0.1	12.1	12.2	3.5	1.4	–	–	–	–	15.6	13.7
Share of profit/(loss) of joint ventures	0.1	0.1	–	–	–	–	(0.3)	(0.3)	–	–	(0.2)	(0.2)
	0.1	0.2	12.1	12.2	3.5	1.4	(0.3)	(0.3)	–	–	15.4	13.5
External interest receivable and similar income	11.5	18.1	2.1	2.8	3.7	2.3	2.8	2.1	–	–	20.1	25.3
Inter-segment interest receivable/(payable)	(4.2)	(1.9)	6.2	4.2	1.5	3.3	0.9	0.8	(4.4)	(6.4)	–	–
Interest receivable and similar income	7.3	16.2	8.3	7.0	5.2	5.6	3.7	2.9	(4.4)	(6.4)	20.1	25.3
Interest payable and similar charges	(0.9)	(0.5)	(0.1)	–	(0.3)	(0.7)	(0.1)	–	–	–	(1.4)	(1.2)
Profit before tax	67.1	42.6	138.5	120.3	24.5	30.5	59.9	57.3	–	–	290.0	250.7
Total carrying amount of segment assets	3,920.4	2,258.3	1,559.9	1,350.0	510.2	426.9	206.2	169.0	(1,085.8)	(862.8)	5,110.9	3,341.4
Capital expenditure on segment assets	8.2	2.2	2.8	1.2	0.7	3.0	0.3	1.1	–	–	12.0	7.5

[1] See note 3.

Notes to the Accounts

for the year ended 31 December 2006

3. Revenues and expenses

	2006 £mn	2005 £mn
Included in revenues:		
Property rental income	3.7	3.4
Net (losses)/gains on foreign exchange	(1.2)	2.6
Aggregate amounts receivable under finance leases	1.2	2.6
Carried interests and distributions from available-for-sale Private Equity investments	11.0	16.4
Other net gains on disposal of available-for-sale investments	13.7	15.9
Impairment of available-for-sale investments	(1.4)	(1.3)
Amounts recycled through revenues in respect of available-for-sale investments	23.3	31.0
Net gains on financial assets held at fair value through profit or loss	30.3	24.2
Total interest income receivable by Private Banking subsidiaries	113.6	85.4
Total interest expense payable by Private Banking subsidiaries	(90.8)	(63.4)
Net interest income in Private Banking subsidiaries	22.8	22.0
Included in cost of sales:		
Amortisation of fund management contracts (see note 10)	(1.0)	–
Included in administrative expenses:		
Salaries and other remuneration	299.6	268.8
Social security costs	30.1	26.9
Other pension costs (see note 4)	15.5	14.1
Employee benefits expense	345.2	309.8
Depreciation of property, plant and equipment (see note 11)	3.4	3.4
Amortisation of software (see note 10)	4.1	7.5
Depreciation and amortisation of software	7.5	10.9
Operating lease payments	19.8	23.7

The average number of employees employed by the Company and its subsidiary undertakings during the year was:

	2006 Number	2005 Number
Full-time employees	2,338	2,141
Contract and temporary staff	295	329
	2,633	2,470
They were employed as follows (all continuing operations):		
Asset Management	2,292	2,121
Private Banking	314	322
Private Equity	18	13
Group	9	14
	2,633	2,470

Audit and non-audit fees:

	2006			2005		
	UK £mn	**Overseas £mn**	**Total £mn**	UK £mn	Overseas £mn	Total £mn
Audit fee for the Annual Accounts	0.3	–	0.3	0.3	–	0.3
Year-end audit services to the subsidiaries of the Company	0.8	0.9	1.7	0.6	0.8	1.4
Other audit services provided pursuant to legislation	0.2	0.1	0.3	0.2	0.1	0.3
Tax services	0.1	0.2	0.3	–	0.4	0.4
Other services	0.2	–	0.2	0.1	–	0.1
	1.6	1.2	2.8	1.2	1.3	2.5

In accordance with Tech 6/06 Disclosure of auditor remuneration issued by the Institute of Chartered Accountants in England and Wales, comparative audit fee analysis has been recategorised.